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MELVILLE SHOE CORPORATION

INVESTMENT DIVISION
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Annual Report

1935

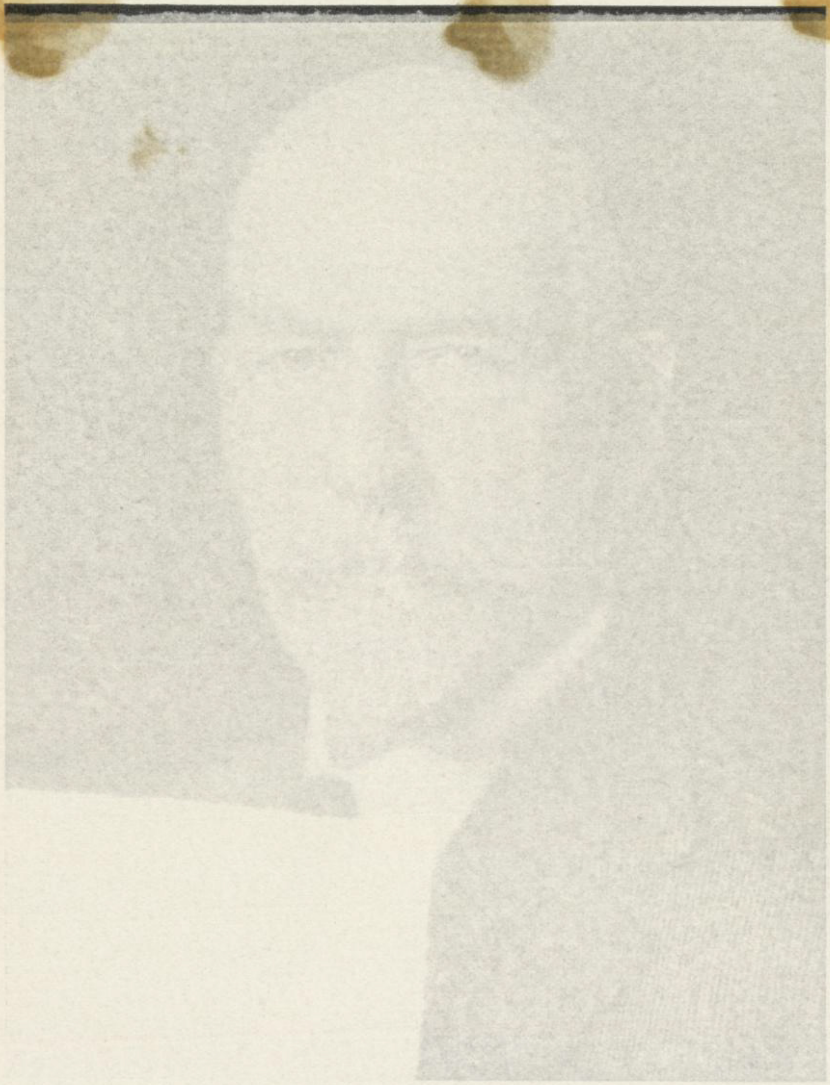
Operating

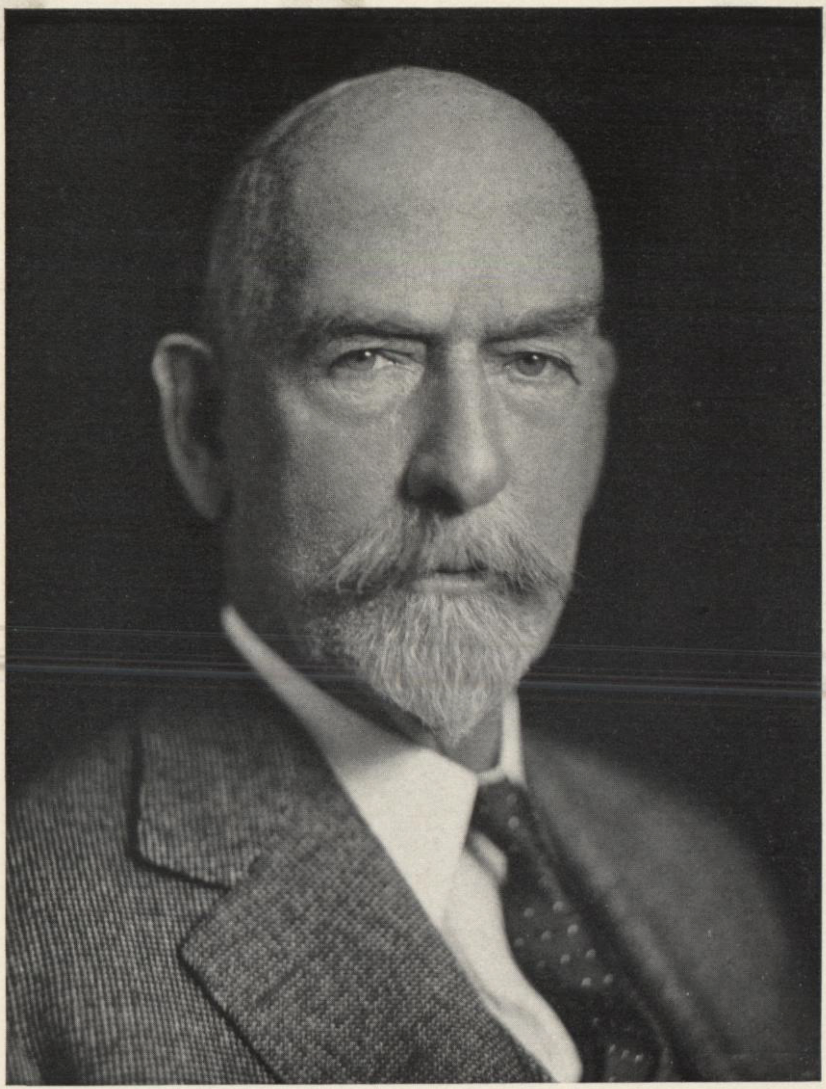
JOHN WARD MEN'S SHOES

THOM MCAN

FRANK MELVILLE, JR.

June 3, 1860—February 25, 1935





MELVILLE SHOE CORPORATION

OFFICERS

Ward Melville	*President*
William Fitch Allen	*Vice-President*
William J. Cobb	*Vice-President*
Elbert R. Allen	*Treasurer*
Joel E. Fisher	*Secretary*
Cyril J. Richards	*Assistant Treasurer*
Arthur Paar	*Assistant Secretary*

DIRECTORS

William Fitch Allen	Clarke & Allen
Joel E. Fisher	*New York*
Frederick S. Little	Chairman, R. C. Rathbone & Son, Inc.
J. Franklin McElwain	President, J. F. McElwain Co.
Ward Melville	*New York*
Joseph L. Merrill	E. A. Pierce & Co.
Harry Eliot Robinson	E. C. Benedict & Co.

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Melville Realty Corporation

Ward Melville	*President*
William Fitch Allen	*Vice-President*
Elbert R. Allen	*Treasurer*
Arthur Paar	*Secretary*
Cyril J. Richards	*Assistant Treasurer*
Joel E. Fisher	*Assistant Secretary*

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The R-W Realty Co., Inc.

Ward Melville	*President*
William Fitch Allen	*Vice-President*
Elbert R. Allen	*Treasurer*
Arthur Paar	*Secretary*
Cyril J. Richards	*Assistant Treasurer*
Joel E. Fisher	*Assistant Secretary*

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Broadway & 52nd Street Corporation

Arthur Paar	*President*
Murray F. Johnson	*Vice-President*
Elbert R. Allen	*Treasurer*
Joel E. Fisher	*Secretary*

To Our Stockholders:

The annual report of Melville Shoe Corporation for the year ending December 31, 1935 is submitted herewith for your consideration.

The year 1935 brought to the Corporation its most severe loss in the death of its founder and leader, who passed away peacefully on February 25, following an illness of approximately four months. Affectionately known as "The Chief" to the more than two thousand workers in the company, Mr. Melville was President of the Corporation from its founding in 1916 when it took over a business operated individually by him since 1890, until April 8, 1930, when he was elected Chairman of the Board of Directors, which office he retained until his death. Mr. Melville was seventy-five years of age.

You will note that the company's net income for the year amounted to $2,013,412.10 as against $1,692,912.58 in 1934. This represents earnings of $5.02 per share, after preferred dividends paid, on the 371,461 shares of common stock outstanding, as compared with $4.16 per share in 1934.

Dollar sales for the year were $30,355,524.18 as compared with $27,215,927.63 in 1934, an increase of 11.54 per cent; while unit sales for the twelve months were 9,085,155 pairs of shoes as against a total of 7,686,068 pairs in 1934, a gain of 18.1 per cent; and 7,572,422 pairs of hosiery as against 5,795,498 pairs in 1934, a gain of 30.66 per cent.

Both gross sales and net income were the largest in the Corporation's history.

The total current assets of the Corporation on December 31 were $8,401,964.86 against total current liabilities of $1,975,061.29, or a ratio of four to one. On the same date, cash on hand and in banks amounted to $4,019,477.17, which was approximately twice current liabilities.

In continuance of its traditional policy of selling merchandise at the lowest price consistent with reasonable merchandising operations, the price of $5.50 for John Ward shoes was continued through the year and the low price of $3 on Thom McAn men's shoes (the largest item of sale) was maintained for a considerable period after the increased cost of materials

justified an increase, being raised to $3.30 on December 2. It is the belief of your officers that adherence to this policy builds good will for your company in an immeasurable amount, and that it is in furtherance of the best economic theory, since recovery is assisted by the widest possible distribution of good merchandise at the lowest possible cost to the consumer. Saving on one item of purchase frees resources for purchase of others, thus permitting all divisions of trade to be of mutual assistance to each other. Greater movement of merchandise stimulates employment and spending. The low prices of your company's merchandise resulted in a repetition of the experience outlined to you in the report for 1934—a very satisfactory increase in unit sales. The price still is competitively low.

In the early part of the year your company associated with its principal source of supply in celebrating the manufacture and sale of the fifty-millionth pair of Thom McAn shoes for men and boys. Appropriate exercises were held in New York and in New Hampshire in collaboration with the factory operatives.

Store development was continued by the opening of forty-five additional units, the removal of thirty-seven and the general improvement of seventy-eight other locations. Included among the latter were several large units selling both men's and women's shoes in central metropolitan districts, the result of which has been most satisfactory. During the year one John Ward and six Thom McAn units were closed, so that the net increase in the number of stores as of December 31 last was thirty-eight. In connection with this development and the increased unit sales per store, the manufacturer of Thom McAn shoes found it necessary to open one additional shoe factory and one additional sole leather cutting plant. A continuance of the addition of stores as adequate locations become available will be followed during 1936.

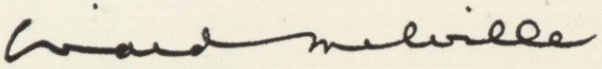
The availability of the Thom McAn stores to the consumer now is sufficient in certain markets to make possible an extension of activities to increase the penetration in these markets. In 1935 your company concluded two years of testing an advertising technique which appears to accomplish this objective profitably. The coming year will find the company employing this method on a larger scale.

Your company has thought it wise to engage in group activities giving publicity to the danger to business inherent in heavy tax burdens, particularly those of the punitive type. While these latter do not constitute as serious a menace to your company as they do to many forms of distribution where the unit volume and the cost of doing business is lower, they nevertheless require careful attention. It is believed that your company's study of this subject warrants it in feeling prepared for any developments that may result from an extension of the program.

Melville Shoe Corporation common stock has secured permanent registration with the Securities and Exchange Commission.

Outstanding in your company's operation for the year was a marked improvement in the relations with the personnel of its stores. 1935 was a year of stress and uncertainty in social relations, yet the adherence of your company to its long standing policy of improved wage scales whenever such are practicable, and its decision to continue the reasonable and fair schedules of working hours set up under the National Recovery Administration resulted in a strengthening of its labor position. The men and women selling your company's shoes earn above the average for work of the type in which they are engaged, and it continues to be the intention of the company to increase these earnings whenever it is practicable to do so consistent with good operation. On an annual basis the increases granted to the sales force during the past year aggregated $125,000. To these faithful workers, as well as to the officers associated in the securing of the results enumerated in this report, I am asked by the Board of Directors to convey its sincere appreciation and thanks.

Respectfully submitted,



President, Melville Shoe Corporation.

February 20, 1936.

ACCOUNTANTS' REPORT

To the Board of Directors,
MELVILLE SHOE CORPORATION,
WORCESTER, MASSACHUSETTS.

We have made an examination of the Consolidated Balance Sheet of Melville Shoe Corporation and its Subsidiary Companies (The R-W Realty Co., Inc., Melville Realty Company, Inc., and Broadway & Fifty-Second Street Corporation) as at December 31, 1935, and of the Consolidated Statements of Profit and Loss and Earned Surplus for the year 1935. In connection therewith, we examined or tested the accounting records of the Companies and other supporting evidence, and obtained information and explanations from officers and employees of the Companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying Consolidated Balance Sheet and related Consolidated Statements of Profit and Loss and Earned Surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the Companies during the year under review, their consolidated position at December 31, 1935, and the results of their operations for the year.

PEAT, MARWICK, MITCHELL & CO.

WORCESTER, MASS.,
February 12, 1936.

MELVILLE SHOE CORPORATION

CONSOLIDATED

As at Dece

ASSETS

Current Assets:		
Cash in Banks and on Hand		$ 4,019,477.17
Accounts and Notes Receivable	$ 200,917.86	
Less Reserve for Doubtful Accounts and Notes	25,330.43	175,587.43
Inventories (determined by responsible officials on the basis of physical inventories taken principally during the latter part of the year and adjusted to December 31, 1935; stated at cost or market, whichever is lower)		4,206,900.26
Total Current Assets		8,401,964.86
Notes Receivable, non-current		75,621.66
Cash in Closed Banks and on Restricted Deposit, less Reserve of $7,283.04		15,171.18
Accounts of Officers and Employees (of which $8,158.74 is fully secured)		11,905.95
Investments:		
Cash Surrender Value of $753,000.00 of Life Insurance Policies	65,132.40	
United States Treasury Bonds, at Cost (market value $103,875.00), held by Bank as security for Store Managers' Deposits	104,748.84	
Stock of Other Companies, at estimated values	23,573.67	193,454.91
Fixed Assets, at estimated replacement values at December 31, 1931 as determined by the Corporation, plus subsequent additions at cost:		
Land and Buildings, Worcester	680,522.11	
Building on Leased Land, New York	408,064.89	
Store and Office Fixtures, Improvements to Leased Store Properties, and Miscellaneous Equipment	3,516,393.63	
	4,604,980.63	
Less Reserve for Depreciation	2,158,154.31	2,446,826.32
Deferred Charges:		
Prepaid Insurance, Taxes, Rents, and Supplies	166,040.52	
Bonuses, Commissions, and Legal Expenses, Paid to procure Lease Contracts	105,591.53	271,632.05
Common Stock in Treasury, 1,278 shares at cost (held for resale to employees at agreed prices aggregating $20,061.25)		29,095.68
Total		$11,445,672.61

AND SUBSIDIARY COMPANIES

BALANCE SHEET

ber 31, 1935

LIABILITIES

Current Liabilities:		
Accounts Payable		$ 1,423,789.17
Accrued Taxes, Salaries, Rents, etc.		232,541.35
Provision for Federal Income Tax		318,730.77
Total Current Liabilities		1,975,061.29
Accounts of Officers and Employees		20,071.05
Store Managers' Security Deposits, and Deposits on Leases		137,654.23
Reserves:		
Insurance	$ 128,640.01	
Pensions	49,605.00	
Store Front Replacements	20,461.04	198,706.05
Capital Stock:		
First Preferred 6% Cumulative, $100.00 par value:		
Authorized 50,000 shares; Issued 25,000 shares	2,500,000.00	
Deduct—4,529 shares retired	452,900.00	
	2,047,100.00	
Less 1,303 shares in Treasury	130,300.00	
	1,916,800.00	
Second Preferred 6% Cumulative, $5.00 par value:		
Authorized and Issued 100,000 shares $500,000.00		
Deduct—8 shares retired 40.00	499,960.00	
Common, no par value:		
Authorized 500,000 shares; Issued 371,461 shares—declared value, $1.25 per share	464,326.25	2,881,086.25
Surplus (of which $582,500.00 has been appropriated through repurchase of the Corporation's Preferred Stock):		
Paid-in Surplus	1,110,881.55	
Earned Surplus (after providing for Deficits of all Subsidiary Companies, aggregating $292,377.50)	5,122,212.19	6,233,093.74
Total		$11,445,672.61

MELVILLE SHOE CORPORATION AND SUBSIDIARY COMPANIES

Consolidated Profit and Loss Account
For the Year ended December 31, 1935

Sales		30,355,524.18
Cost of Sales		20,665,385.52
Gross Profit		9,690,138.66
Store Operating, and General and Administrative Expenses	$6,648,705.09	
Depreciation	385,733.93	7,034,439.02
Net Operating Profit of Stores		2,655,699.64
Net Loss on Real Estate Operations		108,309.05
Net Operating Profit		2,547,390.59
Interest Paid	11,189.22	
Bonuses and Commissions Paid for Lease Cancellations and Rent Reductions	25,994.62	
Miscellaneous Charges	216,440.46	
	253,624.30	
Less Miscellaneous Income	36,045.81	217,578.49
Net Income, before Federal Income Tax		2,329,812.10
Provision for Federal Income Tax		316,400.00
Net Income		$ 2,013,412.10
Earned on Amount of Common Shares outstanding at end of Period after deducting Preferred Dividends Paid		$ 5.02

Consolidated Earned Surplus Account
For the Year ended December 31, 1935

Balance as at December 31, 1934		$ 4,003,007.30
Add:		
Net Income for the Year ended December 31, 1935	$2,013,412.10	
Excess of Proceeds from Life Insurance Policies over Cash Surrender Value	372,310.87	2,385,722.97
		6,388,730.27
Deduct:		
Reserve Provided for Pensions	50,000.00	
Premium on Preferred Stock Purchased for Retirement	5,286.85	55,286.85
		6,333,443.42
Dividends Paid:		
First Preferred Stock, 6%	117,100.50	
Second Preferred Stock, 6%	29,997.60	
Common Stock, $2.875 per share	1,064,133.13	1,211,231.23
Balance as at December 31, 1935		$ 5,122,212.19

This report is published solely for the information of stockholders of the Corporation and is not intended for use in connection with any sale or purchase of stock.

LIST OF STORES
MELVILLE SHOE CORPORATION

As at December 31, 1935

JOHN WARD—10 STORES

New York	7
Brooklyn	1
Newark	1
Philadelphia	1

THOM McAN—599 STORES
(in 318 cities in 40 states)

Alabama (6)	
Birmingham	2
Ensley	1
Gadsden	1
Mobile	1
Montgomery	1
Arizona (2)	
Phoenix	1
Tucson	1
Arkansas (2)	
Fort Smith	1
Little Rock	1
Colorado (3)	
Denver	2
Pueblo	1
Connecticut (23)	
Bridgeport	2
Danbury	1
Derby	1
Hartford	3
Meriden	1
Middletown	1
New Britain	1
New Haven	4
New London	1
Norwich	1
South Manchester	1
South Norwalk	1
Stamford	1
Waterbury	3
Willimantic	1
Delaware (2)	
Wilmington	2
District of Columbia (4)	
Washington	4
Florida (9)	
Jacksonville	2
Lakeland	1
Miami	2
Pensacola	1
Tampa	2
West Palm Beach	1
Georgia (8)	
Atlanta	4
Augusta	1
Columbus	1
Macon	1
Savannah	1
Illinois (33)	
Aurora	1
Bloomington	1
Chicago	22
Danville	1
East St. Louis	1
Evanston	1
Kankakee	1
Moline	1
Peoria	1
Quincy	1
Rock Island	1
Springfield	1
Indiana (16)	
Anderson	1
Elkhart	1
Evansville	1
Fort Wayne	1
Gary	1
Indianapolis	3
Lafayette	1
Marion	1
Michigan City	1

INDIANA—*Continued*

Muncie	1
New Albany	1
Richmond	1
South Bend	1
Terre Haute	1

IOWA (5)

Davenport	1
Des Moines	2
Dubuque	1
Sioux City	1

KANSAS (2)

Kansas City	1
Wichita	1

KENTUCKY (6)

Covington	1
Lexington	1
Louisville	2
Newport	1
Paducah	1

LOUISIANA (7)

Baton Rouge	1
Monroe	1
New Orleans	4
Shreveport	1

MAINE (4)

Augusta	1
Lewiston	1
Portland	2

MARYLAND (10)

Baltimore	8
Cumberland	1
Hagerstown	1

MASSACHUSETTS (60)

Allston	1
Arlington	1
Attleboro	1
Beverly	1
Boston	7
Brockton	1
Brookline	1
Cambridge	2
Chelsea	1
Dorchester	3
East Boston	1
Everett	1
Fall River	2

MASSACHUSETTS—*Continued*

Fitchburg	1
Framingham	1
Gardner	1
Gloucester	1
Greenfield	1
Haverhill	1
Holyoke	1
Hyde Park	1
Lawrence	2
Lowell	1
Lynn	2
Malden	1
Medford	1
New Bedford	3
Norwood	1
Peabody	1
Pittsfield	1
Quincy	1
Roxbury	1
Roslindale	1
Salem	1
Somerville	2
South Boston	1
Springfield	2
Taunton	1
Wakefield	1
Waltham	1
Watertown	1
Woburn	1
Worcester	2

MICHIGAN (21)

Ann Arbor	1
Battle Creek	1
Detroit	8
Flint	1
Grand Rapids	1
Hamtramck	1
Highland Park	1
Jackson	1
Kalamazoo	1
Lansing	1
Muskegon	1
Pontiac	1
Port Huron	1
Saginaw	1

MINNESOTA (7)

Duluth	1
Minneapolis	3
St. Paul	3

MISSISSIPPI (3)

Greenville	1
Jackson	1
Vicksburg	1

MISSOURI (12)

Joplin	1
Kansas City	2
Maplewood	1
Springfield	1
St. Joseph	1
St. Louis	6

NEBRASKA (3)

Lincoln	1
Omaha	2

NEW HAMPSHIRE (3)

Concord	1
Manchester	1
Portsmouth	1

NEW JERSEY (33)

Asbury Park	1
Atlantic City	1
Bayonne	1
Bloomfield	1
Camden	2
Elizabeth	1
Hackensack	1
Harrison	1
Hoboken	1
Jersey City	6
Long Branch	1
Montclair	1
Newark	5
New Brunswick	1
Orange	1
Passaic	1
Paterson	2
Plainfield	1
Red Bank	1
Trenton	1
Union City	1
West New York	1

NEW MEXICO (1)

Albuquerque	1

NEW YORK (147)

Albany	4
Amsterdam	1
Auburn	1
Bay Shore	1

NEW YORK—*Continued*

Binghamton	1
Buffalo	6
Elmira	1
Freeport	1
Glens Falls	1
Hempstead	1
Huntington	1
Jamestown	1
Kenmore	1
Mount Vernon	1
Newburgh	1
New Rochelle	1
New York (Manhattan and Bronx)	50
(Brooklyn and Queens)	52
(Richmond)	2
Niagara Falls	1
Olean	1
Oswego	1
Peekskill	1
Poughkeepsie	1
Port Chester	1
Rochester	3
Schenectady	2
Syracuse	2
Troy	1
Utica	2
Yonkers	2
White Plains	1

NORTH CAROLINA (7)

Asheville	1
Charlotte	1
Durham	1
Greensboro	1
Raleigh	1
Wilmington	1
Winston Salem	1

OHIO (40)

Akron	2
Alliance	1
Canton	1
Cincinnati	6
Cleveland	9
Columbus	3
Dayton	3
Elyria	1
Hamilton	1
Lima	1
Lorain	1
Mansfield	1

OHIO—*Continued*

Norwood	1
Portsmouth	1
Springfield	1
Steubenville	1
Toledo	3
Youngstown	2
Warren	1

OKLAHOMA (3)

Muskogee	1
Oklahoma City	1
Tulsa	1

PENNSYLVANIA (54)

Ardmore	1
Allentown	1
Altoona	1
Beaver Falls	1
Braddock	1
Butler	1
Chester	1
Erie	2
Greensburg	1
Harrisburg	1
Hazleton	1
Homestead	1
Johnstown	1
Lancaster	1
McKeesport	1
Nanticoke	1
New Castle	1
Philadelphia	22
Pittsburgh	5
Pottsville	1
Reading	1
Scranton	1
Shenandoah	1
Wilkes-Barre	1
Williamsport	1
Wilkinsburg	1
Upper Darby	1
York	1

RHODE ISLAND (11)

Newport	1
Pawtucket	2
Providence	6
Westerly	1
Woonsocket	1

SOUTH CAROLINA (4)

Charleston	1
Columbia	1

SOUTH CAROLINA—*Continued*

Greenville	1
Spartanburg	1

TENNESSEE (7)

Bristol	1
Chattanooga	1
Johnson City	1
Knoxville	1
Memphis	2
Nashville	1

TEXAS (19)

Abilene	1
Amarillo	1
Austin	1
Beaumont	1
Dallas	2
El Paso	1
Fort Worth	2
Galveston	1
Houston	2
Laredo	1
San Angelo	1
San Antonio	2
Sherman	1
Waco	1
Wichita Falls	1

UTAH (2)

Salt Lake City	2

VERMONT (1)

Burlington	1

VIRGINIA (7)

Lynchburg	1
Newport News	1
Norfolk	2
Portsmouth	1
Richmond	1
Roanoke	1

WEST VIRGINIA (5)

Charleston	1
Clarksburg	1
Huntington	1
Parkersburg	1
Wheeling	1

WISCONSIN (7)

Eau Claire	1
Madison	1
Milwaukee	3
Kenosha	1
Oshkosh	1

Thom McAn
WOMEN'S
SHOE SALON
Thom McAn

A large Thom McAn unit, selling both men's and women's shoes:
1307 F Street, N. W., Washington, D. C.

Men's and boys' shoes are sold on the ground floor, and women's and girls' shoes on the second floor, with access by elevator